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TO RUEHC/SECSTATE WASHDC PRIORITY 7486
INFO RUCNCIS/CIS COLLECTIVE
RUEHBJ/AMEMBASSY BEIJING 1285
RUEHIL/AMEMBASSY ISLAMABAD 2089
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RUCPDO/DEPT OF COMMERCE WASHDC
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C O N F I D E N T I A L SECTION 01 OF 02 ASTANA 000379

SIPDIS

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DEPT FOR EB/ESC; SCA/CEN (O'MARA)
USTDA FOR DAN STEIN, SCOTT GREENIP
COMMERCE FOR PAUL HUEPER

E.O. 12958: DECL: 11/01/2016
TAGS: [ENRG](#) [EPET](#) [KZ](#) [PGOV](#) [PREL](#)
SUBJECT: KAZAKHSTAN: ACCESS INDUSTRIES TO MANAGE EKIBASTUZ
GRES II POWER PLANT

REF: A. ALMATY 2155

[1](#)B. ALMATY 2054

Classified By: Pol-Econ Chief Deborah Mennuti; reasons 1.5 (b) and (d).

[1](#)1. (C) Summary: In August 2006, U.S.-based Access Industries assumed management control of Kazakhstan's 50% share of the 1000 MW Ekibastuz Gres II power plant, reportedly in return for financing plant upgrades and constructing one or two additional 500-600 MW generating units. (Russia's RAO UES owns the other 50% of Gres II.) An executive of a rival generating company, AES, told Econoff that the decision to allow Access to buy into Gres II appears to have been facilitated by conflicts between RAO UES, which sought to sell the plant's output at below-market prices to Russia's electricity import monopoly, INTER RAO UES; and the Government of Kazakhstan (GOK), which habitually sold a portion of the plant's output to well-placed Kazakhstani entities at below-market prices. In AES's view, Access is likely to impose discipline on the plant's selling agreements, and undertake the investment necessary to maintain the existing capacity, but is unlikely to spend the estimate \$1.2 billion necessary to add 1000 MW of generating capacity. End summary.

[1](#)2. (C) Access Industries and Kazakhstan's Ministry of Energy and Mineral Resources signed an agreement on August 21, granting Access a 50% interest of Gres II "in trust management" for a period of 10 years, in return for upgrading the plant's two existing 500 MW blocks and financing the construction of a third (and possibly a fourth) 500-600 MW block. The deal follows by 27 months Kazakhstan's transfer of 50% of the plant to RAO UES as settlement of a long-standing, Soviet-era debt (reportedly \$200 million) for unpaid electricity.

[1](#)3. (C) Access executives have thus far dodged post's requests for further information about the deal. Executives of rival generating company AES, however, have suggested that Access was brought in to manage the plant in order to reconcile the incompatible business interests of RAO and state-owned Ekibastuz Energocenter JSC. AES's Regional Director for Eastern Europe and the CIS, Dale Perry, explained to Econoff that Russia wanted RAO to sell the plant's electricity at below-market prices to Russia's electricity import monopolist, INTER RAO UES, which would then resell the power

within Russia, cutting Kazakhstan out of the profit. The Kazakhstanis, in turn, were accustomed to selling Gres II power to well-placed Kazakhstani entities at less-than-market prices. Two years after forming the joint venture, neither partner was happy with the other's loss-making business decisions, Perry concluded, so Access was brought in.

¶4. (C) AES's Kazakhstan Country Manager, Mike Jonagan, amplified on the subject on September 15, telling Econoff that Access had been brought in to "say 'no' to bargain-seekers the GOK couldn't say 'no' to." Jonagan explained that Access's expected rationalization of the Gres II contracts had already had an effect. KazPhosphate, he explained -- one of Kazakhstan's largest electricity consumers -- had already approached AES looking for a low-cost electricity deal, anticipating that its below-market deal with Gres II would now be terminated. (Jonagan explained that KazPhosphate's very survival in the face of low-cost Chinese competition hinged on below-market electricity subsidies. KazPhosphate executives and GOK officials alike periodically approached AES, he said, asking for below market electricity in order to keep the company alive. Much of the rationale for GOK subsidization of the Zhambyl fuel-oil power plant, he added, was to keep KazPhosphate, and its estimated 6500 jobs, afloat.)

¶5. (C) According to press reports, approximately \$90 million will be needed over the next four years to upgrade Gres II's existing 500 MW blocks. Perry and Jonagan estimated the cost of installing additional generating capacity at \$600-\$700 million per 500 MW. Jonagan told Econoff that he doubted that the expansion would occur at that price, especially in light of the fact that AES had unused 500 MW blocks at its Ekibastuz Gres I plant which could be brought on-line for

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\$250 million apiece. In fact, he said, Gres II management was actively negotiating to buy AES's Gres I spare capacity. "We will offer them a price," he said, "but we're unlikely to reach agreement." Gres II needed the spare capacity, he explained, in order to pursue higher-paying customers. Without spare capacity, he explained, Gres II could not guarantee uninterrupted supply, and hence had to pursue low-price buyers -- "regional energy companies (RECs) and mining companies." AES, on the other hand, could guarantee 100% reliability, and hence had its choice of the "premier clients." (Access Industries President Len Blavatnik described another possible means for expanding Gres II generating capacity in a June conversation with Ambassador Ordway reported ref A, saying that if Access was successful at buying into Gres II, it might consider transferring the turbines from its unprofitable Petropavlosk CHP plant to Gres II. The objective, he said, was to increase capacity in order to sell additional power into Russia.)

¶6. (C) Comment: While Blavatnik / Access may be targeting the Russian market in the short-term, the recent news that Blavatnik's Siberian-Urals Aluminum Company (SAUL) plans to launch a feasibility study for construction of an aluminum smelter in Kazakhstan suggests possible alternative future use for Gres II electricity. End comment.

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